WOMEN IN GOVERNMENT

Family Economic Success Policy Resource Center

Predatory and Payday Lending Fact Sheet

Brief Overview

Predatory lending is defined by inequitable market practices that result in charging inflated fees and interest rates for loans that borrowers might not be capable of repaying. Refinancing loans over a short time period results in the borrower's inability to improve his/her financial situation in the long run. Borrowers are also misinformed about the terms of the loan, which forces them into a financial contract that devalues their credit history and jeopardizes their financial future.

Predatory lending is disproportionately common in populations with low-incomes or those with poor or no credit histories. The Center for the Study of Social Policy identified two forms of predatory lending that are significantly common in these populations:

- **Predatory mortgage lending** occurs when lenders offer loans using dishonest lending practices such as prepayment penalties and negative amortization, which significantly reduces a family's home equity and could potentially lead to foreclosure. It has been estimated that each year, predatory mortgage lending results in a loss of $1.9 billion for American families.

- **"Payday" lending** is defined as the practice of offering short-term, high-interest loans on the condition that the lender obtains authorization to obtain payment from the borrower. The majority of "payday" borrowers end up incurring greater debt and are unable relieve themselves from the high-interest payments. In turn, this has a serious impact on their ability to apply for conventional loans in the future.

Predatory and Payday Lending Facts

- Payday loans carry annual interest rates of 400%, and the industry relies for 90% of their revenue on borrowers who repeatedly renew or re-open their payday loans. The typical borrower ends up paying about $500 in interest for a $300 loan, and still owes the principal. (Center for Responsible Lending)

- 12 million Americans are caught in a cycle of 400% interest payday lending debt every year. (Center for Responsible Lending)

- A 36% interest rate cap would save $5 billion per year in abusive payday lending fees and is a significant financial reform that would cost taxpayers nothing. (Center for Responsible Lending)

- A 36% interest rate cap is the only measure that has successfully reformed payday lending in 15 states – AR, CT, GA, ME, MD, MA, NH, NJ, NY, NC, OH, OR, PA, VT, and WV. In 2007, the District of Columbia enacted a 24% cap on payday loans. (Center for Responsible Lending)

- There are more than 2,400 payday lending stores in California in 2008, more than all Starbucks and McDonald's combined. (Center for Responsible Lending)

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TELEPHONE (202) 333-0825 FAX (202) 333-0875
1319 F STREET NW, SUITE 710 WASHINGTON, DC 20004
WWW.WOMENINGOVERNMENT.ORG